

March 16, 2005

Subject: A credit union may grant loans to its employees at more favorable terms than granted to its members, except employees who are also member of the credit committee

Division of Credit Unions Interpretive Letter I-05-02

This interpretive letter supersedes Division of Credit Unions opinion number O-96-14.

Issue

1. May a federally insured, Washington state-chartered credit union make loans to its employees at more favorable rates, terms, or conditions than those available to members generally?
2. May a federally insured, Washington state-chartered credit union make loans to employees serving on its credit committee at the same rates, terms, and conditions available to its other employees?

Analysis

There is nothing in the Washington Credit Union Act, the Washington Administrative Code, or National Credit Union Administration rules that forbids credit unions from offering loan discounts to their employees.

The one exception is that credit unions may not offer those loan discounts to employees who are also serving as directors or members of the credit or supervisory committees.

The Washington Credit Union Act prohibits credit unions from offering loans to directors or supervisory and credit committee members under more favorable terms and conditions than loans offered to credit union members generally. RCW 31.12.365(3).

The National Credit Union Administration regulations for federally insured credit unions, and the Washington Administrative Code provisions which implement the Washington Credit Union Act, impose more stringent limitations on lending to directors and supervisory and credit committee members. Under those rules, loans made to, or endorsed or guaranteed by, credit union officials, their immediate family members, their business associates, or business associates of their immediate family members, cannot be on more favorable terms than comparable loans to other credit union members. 12 CFR 741.203(a), 12 CFR 701.21(d)(5), WAC 208-444-030.

For the purposes of this interpretive letter, the following definitions of key terms apply:

1. “Loan” means loans or lines of credit.
2. “Official” means
 - a. Any member of the board of directors, or
 - b. Any member of the credit committee or supervisory committee.
3. “Immediate family member” means a
 - a. Spouse, or
 - b. Other family member living in the same household as the official.
4. “Business associate” means any individual having a
 - a. common ownership,
 - b. investment, or
 - c. other pecuniary interestin a business enterprise with an official or with an immediate family member of an official.

Conclusion

Federally insured credit unions may generally make loans to their employees at more favorable rates, terms, and conditions than those available to other credit union members. However, they may not make those more favorable loans to an employee during that employee’s tenure on the credit committee. Although the loan terms would not be more favorable than those available to any other credit union employee, the statute and rules do not make an exception for employees who are also credit committee members.